



COUNTY of NAPA

ROBERT J. PETERSON, P.E.
Director of Public Works
County Surveyor-County-Engineer
Road Commissioner
District Engineer

DONALD G. RIDENHOUR, P.E.
Assistant Director of Public Works
Assistant District Engineer

March 30, 2005

Thomas R. Pinkos
California Regional Water
Quality Control Board
11020 Sun Center Dr. #200
Rancho Cordova, CA 95670

RE: Administrative Civil Liability Complaint No. R5-2005-0507,
Lake Berryessa Resort Improvement District, Napa County

Mr. Pinkos:

In your March 4, 2005 letter, the Lake Berryessa Resort Improvement District (District) was issued an Administrative Civil Liability Complaint (ACLC) in the amount of \$400,000.

The District is unable to pay the amount demanded in the ACLC. As required by your March 4th letter, we are submitting a statement of financial conditions. We are requesting that the financial information contained in this letter serve as the required statement of conditions.

The 2004 Auditor's report for the District was faxed to your office on March 24th, 2005. The audit report shows a positive cash flow for the District budget; however, as the budget is quite complex for a district of its size, it deserves further explanation.

Attached to this letter is another copy of the 2004 audit report. Page 90 shows the net cash flow for the District provided by operating activities. It shows a District cash balance of \$280,539. On Attachment A, the cash balance has been further amended to include current District liabilities. These liabilities include the remaining balance owed on a loan the District received to complete sewer rehabilitation projects required by the 1996 Cease and Desist Order (\$173,862), and the projected deficiency (\$100,388) the District faces in its operating budget for Fiscal Year 2005, which ends on June 30, 2005. As you can see, at the end of Fiscal Year 2005, if projections for the operating budget hold true and if the loan is completely paid in full, the District will have a remaining cash balance of \$6,289.

Included in the above projections for the budget deficiency for Fiscal Year 2005 is the ERAF III shift which will take \$20,439 from the District's revenue. The ERAF III shift will also affect the Fiscal Year 2006 revenue in the same amount. (Attachment B.)

In order to provide a clearer picture of the District's current budget status, the auditor's office for the District completed a trial cash flow balance. The trial cash flow balance is also provided for your information as Attachment C. The highlighted numbers pertain to the current status of the District as discussed below.

As of today, March 28, 2005, the District has an unavailable reserve account with a balance of \$184,850. The unavailable reserve account can only be used in times of emergency, at the beginning of a fiscal year for project designations or at the end of a fiscal year to balance deficiencies in the operating budget. The operating budget, at this time, is in the red \$167,291. If the Fiscal Year were to end today, the District would have no alternative but to use its reserve funds to balance the deficiencies in the operating budget. Doing so would leave the District \$17,559 in reserves, or the amount in unavailable reserves minus the deficiency. It is clear that given the available revenue and the current operating expenses, the District reserves and available cash flow will be near depleted by the end of this Fiscal Year.

Unfortunately the deficiencies in the operating budget do not include the District's loan liability of \$173,862. If the loan liability were also taken into account in the above scenario, the District would be in debt in the amount of \$156,303, or the remaining reserve balance minus the loan liability.

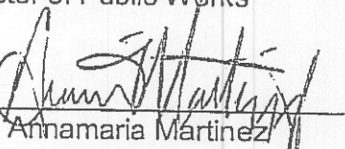
In light of the financial information provided above, we have clearly shown the District budget to be in no position to pay the ACLC amount of \$400,000. Should you require further information on the status of the District's finances, please let me know and I will provide you with the desired information.

Should you have any questions, please call me at 707-259-8378.

Sincerely,

ROBERT J. PETERSON, P.E.
Director of Public Works

By:


Annamaria Martinez
Assistant Engineer

Enc: 2004 LBRID Audit Report
Attachment A—Amendment to Audit Report
Attachment B—ERAF III Shift Documents
Attachment C—March 28, 2005 Trial Cash Flow Balance

CC: Mr. Thomas Pinkos – Executive Officer, RWQCB Central Valley Region
Mr. Jack DelConte – Principal WRCE, RWQCB Central Valley Region
Ms. Wendy Wyles – RWQCB Central Valley Region
Senator Wesley Chesbro
Assemblywoman Noreen Evans
Lake Berryessa Resort Improvement District Board of Directors
Nancy Watt – Napa County Executive Officer
Robert Westmeyer – Napa County Counsel
Margaret Woodbury – Chief Deputy County Counsel
Robert Peterson – Director of Public Works
Don Ridenhour – Assistant Director of Public Works
Tim Lanphear – LBRID Supervising Operator
Neil O'Hare, Emergency Services Manager, CEO Office
Trent Cave – Director of Environmental Management

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors and Grand Jury
County of Napa
Napa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Napa, California, (the County), as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated October 21, 2004, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD & A) and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the County of Napa's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

Roseville, California

October 21, 2004

NONMAJOR ENTERPRISE FUNDS

ENTERPRISE FUNDS:

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed primarily through user charges; or where the County has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Lake Berryessa Resort Improvement

The Lake Berryessa Resort Improvement District (LBRID) was established in the 1960's by the Resort Improvement Act. LBRID's only functions are the provision of water and wastewater services within the district. Revenue is generated primarily from water and sewer availability charges, user fees, and property taxes.

Napa Berryessa Public Improvement

The Napa Berryessa Resort Improvement District (NBRID) was established in the 1960's by the Resort Improvement Act. NBRID's only functions are the provision of water and wastewater services within the district. Revenue is generated primarily from water and sewer availability charges, user fees, and property taxes.

COUNTY OF NAPA

Combining Statement of Fund Net Assets Nonmajor Enterprise Funds June 30, 2004

	Lake Berryessa Resort Improvement	Napa Berryessa Public Improvement	Total
ASSETS			
Current Assets:			
Cash and Investments	\$ 320,182	\$ 508,209	\$ 828,391
Accounts receivable	5,884	5,443	11,327
Assessments receivable	30,593	13,493	44,086
Total Current Assets	<u>356,659</u>	<u>527,145</u>	<u>883,804</u>
Noncurrent Assets:			
Capital Assets:			
Nondepreciable:			
Land	5,050	44,402	49,452
Depreciable:			
Buildings and improvements	1,732,127	1,413,153	3,145,280
Equipment	148,935	72,977	221,912
Accumulated depreciation	(964,232)	(1,088,022)	(2,052,254)
Total Noncurrent Assets	<u>921,880</u>	<u>442,510</u>	<u>1,364,390</u>
Total Assets	<u>\$ 1,278,539</u>	<u>\$ 969,655</u>	<u>\$ 2,248,194</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 2,205	\$ 21,144	\$ 23,349
Deposits with others	22,190	34,404	56,594
Total Current Liabilities	<u>24,395</u>	<u>55,548</u>	<u>79,943</u>
NET ASSETS			
Invested in capital assets, net of related debt	921,880	442,510	1,364,390
Unrestricted	332,264	471,597	803,861
Total Net Assets	<u>1,254,144</u>	<u>914,107</u>	<u>2,168,251</u>
Total Liabilities and Net Assets	<u>\$ 1,278,539</u>	<u>\$ 969,655</u>	<u>\$ 2,248,194</u>

COUNTY OF NAPA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets Nonmajor Enterprise Funds For the Year Ended June 30, 2004

	Lake Berryessa Resort Improvement	Napa Berryessa Public Improvement	Total
Operating Revenues:			
Charges for services	\$ 583,130	\$ 633,931	\$ 1,217,061
Total Operating Revenues	583,130	633,931	1,217,061
Operating Expenses:			
Services and supplies	561,436	519,100	1,080,536
Insurance	3,029	6,743	9,772
Other charges	70,031	902	70,933
Depreciation and amortization	75,049	40,374	115,423
Total Operating Expenses	709,545	567,119	1,276,664
Operating Income (Loss)	(126,415)	66,812	(59,603)
Non-Operating Revenues (Expenses):			
Aid from other governmental units	227	330	557
Tax revenue	24,308	35,402	59,710
Non-operating revenues	23,871	800	24,671
Interest income	347	7,693	8,040
Total Non-Operating Revenues (Expenses)	48,753	44,225	92,978
Change in Net Assets	(77,662)	111,037	33,375
Net Assets - Beginning of Year	1,331,806	803,070	2,134,876
Net Assets - End of Year	\$ 1,254,144	\$ 914,107	\$ 2,168,251

COUNTY OF NAPA

Combining Statement of Cash Flows Nonmajor Enterprise Funds For the Year Ended June 30, 2004

	Lake Berryessa Resort Improvement	Napa Berryessa Public Improvement	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers	\$ 911,173	\$ 638,901	\$ 1,550,074
Cash paid to suppliers for goods and services	(630,634)	(500,601)	(1,131,235)
Net Cash Provided (Used) by Operating Activities	280,539	138,300	418,839
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Aid from other governmental units	227	330	557
Non-operating revenues	48,179	36,202	84,381
Net Cash Provided (Used) by Noncapital Financing Activities	48,406	36,532	84,938
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payments related to the acquisition of capital assets	(32,734)	(60,502)	(93,236)
Net Cash Provided (Used) by Capital and Related Financing Activities	(32,734)	(60,502)	(93,236)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	347	7,693	8,040
Net Cash Provided by Investing Activities	347	7,693	8,040
Net Increase (Decrease) in Cash and Cash Equivalents	296,558	122,023	418,581
Cash and Cash Equivalents, Beginning of Year	23,624	386,186	409,810
Cash and Cash Equivalents, End of Year	\$ 320,182	\$ 508,209	\$ 828,391

COUNTY OF NAPA

Statement of Cash Flows (continued) Nonmajor Enterprise Funds For the Year Ended June 30, 2004

	Lake Berryessa Resort Improvement	Napa Berryessa Public Improvement	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by			
Operating Activities:			
Operating income (loss)	\$ (126,415)	\$ 66,812	\$ (59,603)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	75,049	40,374	115,423
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	308,870	5,479	314,349
Assessment receivable	19,173	(509)	18,664
Increase (decrease) in:			
Accounts payable	2,197	21,144	23,341
Deposits with others	1,665	5,000	6,665
Net Cash Provided (Used) by Operating Activities	<u>\$ 280,539</u>	<u>\$ 138,300</u>	<u>\$ 418,839</u>

Attachment A

Lake Berryessa Resort Improvement District

Expansion of Financial Information
from the 2004 Auditor's Report

Net Cash Provided (used) by
Operating Activities

\$ 280,539.00

Liabilities

Total Loan Value

\$ (300,000.00)

Amount Repaid

\$ 126,138.00

Amount Owed

\$ (173,862.00)

Projected 2005 Revenue

\$ 357,029.00

Projected Expense

\$ (457,417.00)

Difference

\$ (100,388.00)

Total Liabilities

\$ (274,250.00)

Net Cash including Current Liabilities
not covered in the 2004 Auditor's Report

\$ 6,289.00



1400 K Street, Suite 400 • Sacramento, California 95814
 Phone: 916.658.8200 Fax: 916.658.8240
www.cacities.org

Fact Sheet: The ERAF Property Tax Shift

In 1992, the State of California found itself in a serious deficit position. To meet its obligations to fund education at specified levels under Proposition 98, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to "educational revenue augmentation funds" (ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools.

In fiscal 2004-05, the annual impact of the ERAF shift is a shortstopping of some \$6.7 billion¹ from cities, counties, special districts and the citizens those entities serve. Since their inception, the ERAF shifts have deprived local governments of over \$51 billion. Counties have borne some 74 percent of this shift; cities have borne 16 percent.

The state has provided some funding to local governments that it considers mitigation of ERAF. However, the vast majority of these funds are earmarked for particular purposes. Moreover, a relatively small portion of these funds has gone to cities. In 1992, California voters approved Proposition 172, which provided sales tax funding for police, fire and other public safety programs. Proposition 172 funds provide only \$2.5 billion annually to local government, leaving local citizens facing a \$2.7 billion net ERAF gap in FY 2003-04. Considering all state subventions that the Legislative Analyst defines as "ERAF mitigation," the net ERAF impact on cities is over \$1 Billion in the current year.²

These takeaways have had real impacts on Californians' quality of life and the attractiveness of local communities to business. City residents have experienced the following consequences of the ERAF shift:

- ☐ Cuts in human services, including parks (down 20 percent since 1991), libraries (down 7 percent) and other community services
- ☐ Deferred maintenance on the public's investment in its infrastructure (for example, street maintenance investments are down an average of 11 percent; in larger cities the reduction averages 17 percent)
- ☐ Reductions in reserves and greater reliance on debt rather than cash financing for capital improvements

All of this comes at a time when California's population is growing rapidly and is creating demands for additional services and facilities. Indeed, the population growth in cities (57 percent) has exceeded the statewide population growth rate (46 percent) over the past 20 years.

¹ This includes a \$1.3 billion shift agreed to by local government associations as a part of the 2004 budget agreement with the Governor.

² These are aggregate statewide figures and include the \$1.3 billion shift included in the 2004 budget agreement.

ERAF Adjustments
First-Triple X.xls

11/15/2004

Attachment C

Attachment C					
CALCULATION OF FUND BALANCES					
COUNTY OF NAPA					
AS OF MARCH 9TH, 2005					
FUND:	6510	LAKE BERRYESSA RESORT IMPROVEMENT DISTRICT	FUND BALANCES		
			AVAILABLE	UNAVAILABLE	TOTAL
GENERAL RESERVE			(145,142.39)	184,850.00	39,707.61
RESERVE-IMPREST CASH				-	-
RESERVE-DESIGNATIONS					-
RESERVE-LOAN T 2000					-
RESERVE ENCUMBRANCES				-	-
INVESTMENT IN FIXED ASSETS				921,881.34	921,881.34
BALANCE 06/30			(145,142.39)	1,106,731.34	961,588.95
OPERATING:					
REVENUE			60,110.26		60,110.26
(EXPENDITURES)			165,336.25		165,336.25
			(105,225.99)	-	(105,225.99)
BUDGETARY:					
(ESTIMATED REVENUE)			365,718.00		365,718.00
APPROPRIATIONS			448,795.00		448,795.00
(ENCUMBRANCES)			-		-
			83,077.00	-	83,077.00
GENERAL LEDGER BALANCE 06/30					
BUDGET DOCUMENT BALANCE 06/30			(167,291.38)	1,106,731.34	939,439.96
RECONCILIATION					
G/L CASH BALANCE 06/30			215,571.10		215,571.10
ADD:					
		AR WATER/SEWER USE	-		-
		AR TEETER	-		-
		UPS:PLANT/LAND	921,881.34		921,881.34
		ACCTS RECEIVABLE	-		-
			1,137,452.44	-	1,137,452.44
DEDUCT:					
		ACCTS PAYABLE	-		-
		LOAN T 2000	173,862.20		173,862.20
		ACCRUED SAL PAY	-		-
		A/P ACCRUALS PR YR	-		-
		OTHER A/P	-		-
		DEPOSITS CUSTOMER	24,150.28		24,150.28
G/L FUND BALANCE 06/30			198,012.48	-	198,012.48
BUDGET DOCUMENT BALANCE 06/30			939,439.96	-	939,439.96
					-